



Teachers' Retirement System



Member Handbook



The Retirement
Systems of
Alabama

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Building Location

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Business Hours

8:00 am - 5:00 pm

Monday - Friday

Please provide your full name and Social Security number on all faxes and letters.

Cover photos (from left to right): Alabama Center for Commerce, Montgomery; Capitol Hill, Prattville; 55 Water Street, New York City; Hampton Cove, Huntsville

2008

TRS Member Handbook

Introduction

The Retirement Systems of Alabama (RSA) is pleased to provide you with the Teachers' Retirement System (TRS) Member Handbook. This handbook is an important part of our commitment to provide our members with valuable information about their benefits and retirement. Please read this handbook thoroughly and keep it with your other benefit materials. Your member handbook is a very useful tool when you have questions about your TRS benefits and retirement. It will help you make informed decisions about your future.

The information in this handbook is based on the Code of Alabama 1975, Title 16, Chapter 25 for TRS and Chapter 25A for Public Education Employees' Health Insurance Plan (PEEHIP). This handbook is not intended as a substitute for the laws of Alabama governing the TRS nor will its interpretation prevail should a conflict arise between its contents and Chapters 25 and 25A. Furthermore, the laws summarized here are subject to change by the Alabama Legislature. Do not rely solely upon the information provided in this handbook to make any decision regarding your retirement, but contact the TRS directly with any questions you may have about your benefits and retirement.

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About TRS

Our Mission

The mission of the Retirement Systems of Alabama is to serve the interests of our members by preserving the excellent benefits and soundness of the Systems at the least expense to the state of Alabama and all Alabama taxpayers.

TRS Board of Control

Responsibility for the management and administration of the TRS is vested in a 14-member Board of Control. The board consists of the following members:

- ◆ Executive Secretary of the Alabama Education Association, Ex Officio
- ◆ State Superintendent of Education, Ex Officio
- ◆ State Treasurer, Ex Officio
- ◆ Director of Finance, Ex Officio
- ◆ Ten members of the TRS, all elected by the TRS membership
 - ◇ Two retired members
 - ◇ One city or county superintendent
 - ◇ One principal
 - ◇ One from postsecondary education
 - ◇ Three active teachers in grades K-12
 - ◇ Two education support personnel

The Board of Control has full power to invest and reinvest the retirement funds through the Secretary-Treasurer. The Board elects the Secretary-Treasurer who will serve as the Chief Executive Officer of the RSA and is responsible for the day-to-day management of the RSA.

Visit the RSA Web Site (www.rsa-al.gov)

The TRS strongly encourages its members and member agencies to browse this user-friendly site because of the tremendous amount of useful information and interactive tools available.

What you can find:

- ◆ Retirement Benefit Calculator and DROP Calculator
- ◆ The best ways of contacting the RSA
- ◆ Monthly earnings for RSA-1
- ◆ Investment performance
- ◆ Publications and forms
- ◆ Legislation affecting the RSA
- ◆ PEEHIP information
- ◆ Agency information
- ◆ Retirement planning information
- ◆ Retiree information

Map and Directions

From the West

Follow Highway 80 to I-65. Follow I-65 North to Montgomery. Approaching Montgomery, stay in the right-hand lane and exit onto I-85 North to Atlanta. Continue in the right-hand lane; then take the first exit, which is Court Street. Stay on the service road until you reach Union Street. Turn left on Union Street. Continue on Union Street through two traffic lights. The RSA Headquarters is on the right side of Union Street before Adams Avenue. Members may park in the open lot in front of the parking deck.

From the East

Follow I-85 South to downtown Montgomery and take the Union Street exit on the right. Take the first right on the service road onto Union Street. Continue on Union Street until you reach the second traffic light at the intersection of Union Street and Adams Avenue. The RSA Headquarters is on the right side corner of Union and Adams.

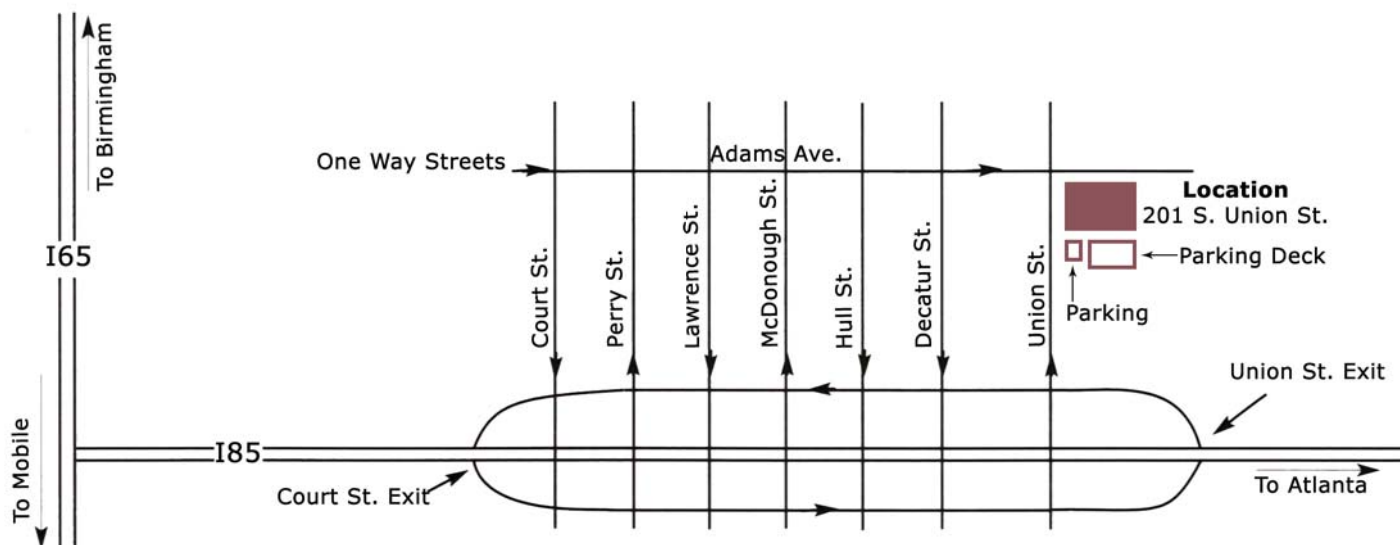
From the South

Follow I-65 North to Montgomery. Approaching Montgomery, stay in the right-hand lane and exit onto I-85 North to Atlanta. Continue in the right-

hand lane; then take the first exit, which is Court Street. Stay on the service road until you reach Union Street. Turn left on Union Street. Continue on Union Street through two traffic lights. The RSA Headquarters is on the right side of Union Street before Adams Avenue. Members may park in the open lot in front of the parking deck.

From the North

Follow I-65 South into Montgomery. Take the I-85 North exit to the right to Atlanta. Stay in the right-hand lane and take the first exit on I-85, which is the Court Street exit. Stay on the service road until you reach Union Street. Turn left on Union Street. Continue on Union Street through two traffic lights. The RSA Headquarters is on the right side of Union Street before Adams Avenue. Members may park in the open lot in front of the parking deck.



Membership

Defined Benefit Program

The TRS is a defined benefit plan qualified under Section 401(a) of the Internal Revenue Code. Since its inception in 1941, the plan has provided disability and service retirement benefits to members and survivor benefits to qualified beneficiaries. A defined benefit plan provides the employee with a specific benefit at retirement by calculating the retirement benefit based on a formula. Benefits are payable monthly for the lifetime of the member, possibly continuing for the lifetime of his or her beneficiary. The *Code of Alabama 1975*, Section 16-25 contains the actual language governing the plan.

Mandatory Participation

Participation in the TRS is mandatory if a person is employed in a position eligible for coverage in a **non-temporary capacity on at least a one-half time basis earning at least the federal minimum wage**. Once enrolled, the member must continue participation until employment is terminated. Active members of the Employees' Retirement System (ERS) and student employees are not eligible for TRS participation.

Temporary employees with a specific termination date not exceeding one year are ineligible. However, temporary employees employed longer than one year must begin participation in the TRS at the beginning of the second consecutive year of employment. The member will be given the opportunity to purchase the first year of temporary employment.

Contributions

Regular members' contribution rate is **five** percent of earnable compensation. Earnable compensation is the full rate of compensation payable to a member working full-time. Full-time certified firefighters, correctional officers, and law enforcement officers must contribute **six** percent of earnable compensation. The member contribution rate is determined by statute and subject to change by the Alabama Legislature. The employer's contribution rate is established after each annual actuarial valuation of participating agencies.

Designation of Beneficiary

It is very important for members to keep their beneficiary(s) designations current. Failure to do so can result in possible loss of valuable benefits to your survivors. If you wish to change your beneficiary or in the event of marriage, divorce, or the beneficiary's death, file a new beneficiary designation with the TRS. A **CHANGE OF BENEFICIARY** form is available on our Web site or you may contact your employer or the TRS. You may name more than one beneficiary and designate them as contingent or co-beneficiaries. If at the member's death, there is no beneficiary; the member's estate will be paid the appropriate death benefit.

A retired member who is receiving a benefit under the provisions of Option 2, 3, or 4 retirement allowance may designate a replacement beneficiary for a monthly survivor benefit if the designated beneficiary predeceases the retired member or if the member and the designated beneficiary become divorced. See **Replacement Beneficiary** on page 19.

Annual Statement of Account

Your personal Annual Statement of Account is mailed to your home address each August with the exception of UAB employees who receive statements in January. The purpose of the annual statement is to provide you with information pertaining to your beneficiary, member contributions, accumulated interest, creditable service and earnings. This also provides you with the opportunity to verify your records and use the information for retirement planning.

The statement includes a Personal section where your beneficiary is indicated. Please check to make sure that this information is current. If not, contact the TRS and supply us with the updated information. The next section is Member Contributions. This section lists your previously taxed contributions, non-taxed member contributions, total interest and the balance as of the end of the fiscal year, which is June 30.

The Creditable Service by Category section breaks out the member's service credit by membership, prior, purchased, and transfer service. This section also indicates if the member is vested in the system or not. The Ten Year Service History section shows your calculated earnings based on actual contributions received for the period beginning July 1 and ending June 30 and will not necessarily agree with your contract salary or the salary reported on your W-2 form. Your contributions and service credit are also shown and are provided by your employer. **All statement information is subject to later audit and correction.**

The statement also contains a brief explanation of vesting, refunds, death benefits, disability retirement and maximum monthly retirement benefits.

Change of Address

Having your current home mailing address on file with the TRS is very important. Many important documents are mailed to each member such as your *Advisor*, TRS Board of Control Election ballots, Annual Statement of Account, and RSA-1 statement. Please report any change of address to the TRS in writing, with signature, either by letter or ADDRESS CHANGE NOTIFICATION form. The change of address form can be obtained from your payroll officer or downloaded from our Web site. Address changes cannot be made through email or over the phone.

Types of Creditable Service

Creditable service is the total service credit accrued to your account and is one part of the formula used to calculate your retirement benefit. It includes membership service, prior service, purchased service, and transferred service. Periods of part-time or less than full-time service should be prorated based on the percentage of time worked in relation to full time.

Membership Service

Membership service is service credit earned as an employee while a member of the TRS and making contributions to the TRS. Members can only earn a year's worth of service credit in a year's time. Service credit is calculated by your employer and reported to the TRS. Service credit is subject to review, audit and correction by the TRS prior to retirement.

Prior Service

Service credit earned prior to your agency's participation date in the TRS.

Purchased Service

Alabama state law allows active members to purchase service credit for certain types of past employment. Purchasing service credit may increase the amount of your retirement income or allow you to retire sooner. See **Purchasing Additional Service Credit** on page 10.

Transferred Service

If a member previously worked for an agency covered under the ERS, the member must authorize a transfer of service credit to the TRS.

Leave of Absence

A member of the TRS who is on leave of absence without pay is not entitled to any service credit while on such leave. A member receiving workmen's compensation pay is also not entitled to any service credit for such pay.

Vesting

Vesting means the member has earned enough service credit to be eligible for a lifetime retirement benefit other than a refund of contributions. Members have a vested status in the TRS after accumulating 10 years of creditable service. Members cannot convert unused sick leave to retirement credit in order to meet the minimum 10 years of service required for vesting.

Termination of Service

Ineligible for Retirement

Once a member terminates employment prior to retirement eligibility, he or she has three options:

1. If the member is vested (has at least 10 years of service), retirement contributions may be left in the system until age 60. The member may apply for service retirement to be effective the first of the month following attainment of age 60.
2. With less than 10 years of service, the member may leave contributions in the system for up to five years. If the member has not returned to employment as a participating member, the account will be terminated and contributions plus any refundable accrued interest will be payable to the member.
3. The member may withdraw all retirement contributions and refundable interest. Member contributions are only refunded at the request of the member upon termination of employment and application for refund.

Note: An approved leave of absence does not constitute termination of employment.

To request a refund, contact the TRS and request a FORM 7, NOTICE OF FINAL DEPOSIT AND REQUEST FOR REFUND and the SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS or download them from our Web site. Instructions for completing the form are located on the reverse side of the form. Please read the Special Tax Notice for its valuable tax information. The taxable portion of the refund is subject to federal income tax withholding at the rate of 20 percent unless the taxable amount of the refund is transferred directly (rolled-over) from the RSA to the trustee of an Individual Retirement Account, Annuity, or Qualified Retirement Plan.

If the member elects to receive the refund directly, he or she will be refunded 80 percent of the taxable amount of the retirement contributions and refundable interest, if any. The taxable portion of the refund may also be subject to a 10 percent additional tax if the member is less than 59 1/2 years old. No

portion of the refund is subject to state of Alabama income tax.

In January following the calendar year in which a taxable refund is made, a 1099-R will be issued to the member who has directly received the refund, regardless of whether the individual rolled-over the refund to a qualified plan within 60 days of the date of withdrawal.

Refund of Contributions

A member's contributions are only refundable at the request of the member upon termination of employment and application for refund (FORM 7). There are no partial refunds; all contributions are refunded in full. Interest on the account is only refunded if the member has at least three years of membership service. The employee is not entitled to the total interest credited to the account. Upon withdrawal, all service credit established with the TRS is canceled. For vested members, the right to lifetime monthly retirement benefits at age 60 is forfeited.

Table of Refunds

| Years of Membership Service | Amt of Interest Refunded | Contributions Refunded |
|------------------------------|--------------------------|------------------------|
| Less than 3 yrs | None | All |
| 3 yrs, but less than 16 yrs | 50% | All |
| 16 yrs, but less than 21 yrs | 60% | All |
| 21 yrs, but less than 26 yrs | 70% | All |
| 26 yrs or more | 80% | All |

By law, interest is credited on the previous year's average balance at the rate of four percent per annum. Refunds may be subject to a federal tax penalty.

Purchasing Additional Service Credit

Alabama state law allows active members to purchase service credit for certain types of past employment. Purchasing service credit may increase the amount of your retirement income or allow you to retire sooner.

To purchase service credit, the member must ensure proper certification of the service. Request the appropriate certification form by contacting the TRS or downloading the form from our Web site. Have the form completed by an official record keeper where the service was performed. Then return the completed certification form to the TRS.

Military Service in the U.S. Armed Forces

- ◆ During an active member's **first year** of participation in the TRS, he or she may purchase up to four years of eligible military service provided the member has had no previous period of eligibility. Eligible service includes honorable service in the U.S. armed forces for which the member is not currently receiving service retirement benefits from any branch of the U.S. armed forces, or from any source other than benefits received exclusively as payment for a service connected disability. Weekend service and summer camp service with the National Guard and Reserves are not eligible to be purchased as creditable service.

To purchase this service, a STATEMENT OF MILITARY SERVICE form must be completed and submitted to the TRS. Military documentation that verifies the periods of military service and character of service must be provided. Examples of documentation include DD Form 214 and discharge notification. The cost to purchase military service in the first year is four percent of the average salary paid to a teacher during each year of claimed service plus eight percent interest compounded from the last date of service to the date of payment. The full amount must be paid in a lump-sum for all active duty time up to four years.

- ◆ The next opportunity to purchase military

service will be after accumulating **10 years of creditable service** and will cost substantially more.

Once an active member of the TRS has accrued 10 years of service, he or she may purchase up to four years of active military service if not purchased during the first year of participation. Eligible service includes honorable service in the U.S. armed forces for which the member has not received credit for such service toward retirement status in the TRS, ERS or any other public pension fund. Weekend service and summer camp service with the National Guard and Reserves are not eligible to be purchased as creditable service.

The cost of purchasing credit for military service after ten years of service will be the full actuarial cost. The full actuarial cost is based on the member's life expectancy, salary, and earliest date eligible to begin receiving retirement benefits. This service must be purchased prior to the member's retirement.

Restoration of Withdrawn Service Credit from the RSA

After completing two years of contributing service, any member who previously participated in either the TRS or ERS and withdrew his or her contributions may restore the previously canceled creditable service. The withdrawn service cannot be service credit established with any other public retirement system.

The cost to purchase the withdrawn service is the amount previously withdrawn plus eight percent interest compounded from the date of withdrawal to the date of payment. The total withdrawn amount must be paid in a lump-sum and made prior to termination of employment. A member may request a STATEMENT OF WITHDRAWN SERVICE from the TRS or download from our Web site.

Maternity Leave Without Pay

An active member (male or female) of the TRS may purchase up to one year of credit for each period of maternity leave without pay. The member cannot purchase credit for any period of maternity leave that he or she already has credit for in the TRS.

The cost to purchase this service is the full actuarially determined cost. Payment must be made no later than June 30 of the calendar year following the expiration of maternity leave without pay.

Out-of-State Public Service

Any active member with a minimum of 10 years contributing service, exclusive of purchased military service and transferred ERS service, may purchase up to ten years of out-of-state public service. The service to be purchased must have been credited under another public retirement plan, but cannot qualify the member for any benefits under any other public plan. This service may be purchased in increments of one year. The cost of purchasing credit for out-of-state public service is the full actuarial cost. The purchase must be completed prior to the member's retirement.

TRS Support Personnel, Teacher Aide, Job Corps, and Teacher Corps

This service may be purchased under the same conditions as out-of-state public service. However, a member can only purchase up to eight years of Alabama public service.

Department of Defense Dependent School Service

Any active member with a minimum of 10 years contributing service, exclusive of purchased military service, may purchase credit for service as a regular employee of a school operated by the U.S. Department of Defense. This service must have occurred prior to April 25, 1990. Eligible service cannot include service credited to another plan. This service may be purchased in increments of one year at the full actuarial cost. The cost is the full actuarial cost and must be made prior to retirement.

Sources of Funds

Members of the TRS who are purchasing any type of permissible service as outlined previously in this section may do so by rolling funds from tax deferred savings plans such as tax sheltered annuities (IRC 403(b)), governmental deferred compensation plans (IRC 457) like RSA-1, IRAs (IRC 408), or qualified plans (IRC 401). **This includes funds in your RSA-1 account.**

The member may have these funds transferred directly from the other plan to the TRS and avoid paying tax at the time of transfer, any early distribution penalty, or required withholding. The necessary form will be provided to members when they are notified of the cost for any service purchases.

Note: Eligibility for and cost of all service purchases are based on the provisions of law in effect at the time of purchase.

Death of a Member Prior to Retirement

Preretirement Death Benefit

If a member dies prior to retirement, death benefits are calculated and paid to the beneficiary(s) based on the member's age, service credit, employment status and eligibility for retirement. The preretirement death benefits the beneficiary(s) or estate will receive are outlined in the chart below.

| Member Age | Years of Service Credit | Preretirement Death Benefit |
|-----------------------------|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Ineligible to Retire</i> | | |
| Under 60* or Over 60* | Between 1 and 25 Between 1 and 10 | Member contributions, total interest earned, plus an amount equal to the member's salary for the prior fiscal year (July 1 - June 30) |
| Any Age* | Less than 1 year, death was job-related | Member contributions, total interest earned, plus an amount equal to the member's salary at time of death |
| Any Age | Less than 1 year, death was not job-related | Member contributions, total interest earned, plus an amount matching the contributions and interest but limited to a maximum of \$5,000 |
| <i>Eligible to Retire</i> | | |
| Any Age* or Over 60* | 25 or more 10 or more | <i>Choice of:</i> (1) Option 3 monthly benefit (50% of member's retirement benefit) to the spouse or beneficiary <i>or</i> (2) Member contributions, total interest earned, plus an amount equal to the member's salary for the prior fiscal year (July 1 - June 30) |

* If death occurs more than 180 calendar days after the member's last day in pay status or if the deceased had applied for a refund of contributions or terminated employment, the lump-sum payment will be the same as for status of less than 1 year and not job-related.

The designated beneficiary(s) will receive the death benefit after the RSA-SB, APPLICATION FOR SURVIVOR BENEFIT, and a certified death certificate have been submitted to the RSA. If there is no designated beneficiary, the death benefit will be paid to the member's estate.

Term Life Insurance Benefits

The beneficiary(s) or estate of a deceased full-time active member or a full-time member who dies within 90 days of being in active pay status is eligible to receive \$15,000 in life insurance benefits. For members who are less than full-time, the benefit will be prorated. For example, if the member was half-time, the benefit paid would be \$7,500.

Change of Beneficiary

When a new member joins the TRS, he or she designates a primary beneficiary(s) and contingent beneficiary(s) on the FORM 100, MEMBER INFORMATION RECORD. It is very important for the member to maintain a current beneficiary on record. If the member wishes to change the beneficiary designation, the change must be made on a CHANGE OF BENEFICIARY form. If the member is designating more than one primary or contingent beneficiary, a FORM MB, DESIGNATION OF MULTIPLE BENEFICIARIES PRIOR TO RETIREMENT, must be completed.

If the primary beneficiary predeceases the member, the TRS will pay the contingent beneficiary the death benefit. If at the member's death, there is no beneficiary designated, the estate of the member will receive the appropriate death benefit.

To make beneficiary changes, retired members must contact the TRS or download the form from our Web site. See **Replacement Beneficiary** on page 19.

Reporting the Death of a Member

The beneficiary or family of a deceased **active** member should contact the Payroll/Personnel Officer of his or her place of employment for information and the appropriate forms. The TRS may be contacted if there are any questions about benefits or identity of beneficiaries.

Upon the death of a retired member, the beneficiary or family should contact the TRS for information and the appropriate forms.

Retirement Benefits

Service Retirement

Service retirement benefits are available to members who cease TRS-covered employment and meet minimum service and/or age requirements. The monthly retirement benefit is made for life without interruption unless there is a return to full-time employment with a TRS or ERS agency, or to temporary employment in excess of the limits to be described in **Postretirement Employment** on page 29.

A member is eligible to receive retirement benefits under either of the following conditions:

- ◆ He or she has at least 10 years of service credit and has attained the age of 60

Or

- ◆ After accumulating 25 years of service credit at any age.

A member is eligible to retire the first day of the month following attainment of age 60 with 10 years of creditable service or the first day of the month following attainment of 25 years of service credit. Members may only retire on the first day of any month they are eligible. Eligible members may convert unused sick leave days to service credit to meet the minimum requirement for service retirement. For additional information on **Sick Leave Conversion**, refer to page 17.

To apply for retirement, request a RETIREMENT APPLICATION PACKET PART I from the TRS or your employer, or download the form from our Web site. The application must be received no less than 30 days nor more than 90 days prior to the effective date of retirement. It is the responsibility of the member to notify the TRS in writing regarding intent to retire. Please include your full name and Social Security number on all written correspondence.

Disability Retirement

If the career of a TRS member is cut short because of permanent disability, the member may qualify for monthly disability benefits. To qualify for a disability benefit, the member must meet **all** the following conditions:

1. The member must have 10 years of creditable service.
2. The member must be in-service. A member is considered in-service if currently working or on official leave of absence for one year, which may be extended for no more than one additional year. A member will not receive service credit for periods of leave without pay.
3. The RSA Medical Board must determine the member to be permanently incapacitated from further performance of duty. The Medical Board bases its determination upon information provided by the member's physician.

Monthly disability retirement benefits are calculated identically to those for service retirement, except that additional credit for sick leave cannot be converted to retirement credit.

To apply for disability retirement, request a REPORT OF DISABILITY PACKET and RETIREMENT APPLICATION PACKET PART I from the TRS or your employer. Both forms are on our Web site. The STATEMENT BY EXAMINING PHYSICIAN (included in the REPORT OF DISABILITY PACKET) and the retirement application must be received by the TRS office no less than 30 days nor more than 90 days prior to the effective date of retirement, which is the first day of a month. The member is responsible for notifying the TRS regarding disability retirement.

A disability retiree will be reviewed once each year for the first five years and once every three year period thereafter until age 60 to determine whether the retiree remains disabled.

Checklist for Retirement

12 Months Prior to Retirement

- ◆ Closely review your most recent Annual Statement of Account. If you find discrepancies, call the TRS to speak with a counselor. If you did not receive the latest Annual Statement, call 877-517-0020, and inquire.
- ◆ Visit the RSA Web site, www.rsa-al.gov. Use the site calculator and get an unofficial estimate of your retirement benefits.
- ◆ Resolve questions about purchasing any eligible service credit.
- ◆ Make sure that the TRS has your current home mailing address.
- ◆ Remember that your effective date of retirement must be the 1st of the month in which you wish to retire. Example: July 1 or January 1

11 Months Prior to Retirement

- ◆ Begin a list of what you will do with your time after retirement. Consider all of your possibilities: another career, part-time or full-time, volunteering, travel, pursuing hobbies, etc.
- ◆ Gather information on Social Security benefits and Medicare. The Social Security Web site address is: www.ssa.gov or you may call your local Social Security office.
- ◆ Review your health care and insurance options available after retirement. (If Medicare eligible, you must have Medicare Part A and Part B coverage to be effective on your retirement date. PEEHIP will pay secondary as of this date. Medicare will be the primary coverage.)

10 Months Prior to Retirement

- ◆ Request an official estimate of your benefits using your planned retirement date.
- ◆ Continue to plan for your time after retirement.
- ◆ Meet with your financial advisor or attorney for planning purposes.
- ◆ Begin a list of all expenses or financial obligations you will have after retirement.
- ◆ Begin a list of any questions you have concerning your retirement, your benefit, health insurance, etc.

9 Months Prior to Retirement

- ◆ Consider making an appointment with a retirement counselor. Check the calendar of site visits in your area and complete a RETIREMENT COUNSELING APPOINTMENT REQUEST form. Mail the completed form to RSA Field Services at the RSA. If you are local, make your appointment for the Montgomery home office at 877-517-0020 or 334-517-7000.
- ◆ Compare your list of expenses after retirement to your anticipated retirement income.
- ◆ Continue to plan and review your retirement options.
- ◆ Check with your payroll or personnel office to verify leave status for planning purposes.
- ◆ Work on setting up a retirement income budget for your household.

8 Months Prior to Retirement

- ◆ Have you arranged your appointment with a counselor or at least decided on a time to do so?
- ◆ Complete your list of questions to ask the counselor.

7 Months Prior to Retirement

- ◆ Continue to plan for your time after retirement. Prepare yourself to face emotional, physical and financial adjustments.

6 Months Prior to Retirement

- ◆ Have your health insurance plans and financial arrangements in order.

5 Months Prior to Retirement

- ◆ Request the RETIREMENT APPLICATION PACKET PART I from your payroll office, or download it from our Web site, or call the TRS.
- ◆ Once the application is received, if applicable, examine carefully the PEEHIP information located on the back of the application.
- ◆ Review your estate plan.
- ◆ Begin to make decisions concerning tax withholdings, etc.
- ◆ If contributing to RSA-1, call for information on your options at retirement.

4 Months Prior to Retirement

- ◆ Work on completing your retirement application. If you have questions, seek answers.
***Remember:** The application must be submitted to the TRS no less than 30 days nor more than 90 days prior to the effective retirement date. If your application is received less than 30 days prior to your projected retirement date, your effective retirement date will be delayed until the following month.
- ◆ Begin to update your resume if you are planning to pursue employment after retirement.
- ◆ Study the regulations for postretirement employment.
- ◆ Research exercise and wellness programs.

3 Months Prior to Retirement

- ◆ The RETIREMENT APPLICATION PACKET PART I should be completed and ready to submit to:
Teachers' Retirement System
Post Office Box 302150
Montgomery, AL 36130-2150
- ◆ Strongly consider Direct Deposit for your monthly retirement check.
- ◆ Notify your employer in writing of your last date of service and subsequent retirement

date. Keep a copy for your records.

- ◆ If you are eligible for Medicare, confirm your arrangements for coverage under Part A and Part B. For your records, jot down the date you spoke with the Social Security representative and his or her name.

2 Months Prior to Retirement

- ◆ Submit your retirement application to the TRS if you have not done so and check on your RSA-1 account to make sure you have completed any required paperwork.
- ◆ Promptly respond to any correspondence or communications you receive from the TRS, PEEHIP, or RSA-1.
- ◆ Check on your health insurance coverage to avoid any glitches or delays.
- ◆ Begin cleaning out your office or classroom. Try not to put this off to the last minute.
- ◆ Complete all necessary paperwork or obligations to your employing agency or school district.

1 Month Prior to Retirement

- ◆ The retirement application must have been submitted to the RSA no less than 30 days from your projected retirement date.
- ◆ Fulfill all employment obligations and complete any outstanding paperwork.
- ◆ Be prepared to venture into the next exciting chapter of your life.
- ◆ Make sure that you receive the RETIREMENT BENEFIT OPTION SELECTION and TAX FORM PACKET. These forms must be completed and submitted to TRS prior to the effective date of retirement.

Sick Leave Conversion

A TRS member who is a public education employee may convert sick leave to service credit for retirement purposes. This credit can be used to attain minimum service requirements for retirement, or may be added to total service credit if minimum service has been attained. If a member is paid for any sick leave, none can be used for retirement credit.

A TRS member who is a state employee, such as an employee of the Department of Education, may convert sick leave to retirement in lieu of payment he or she may be entitled to receive. Currently, state employees may only accrue a maximum of 150 days of sick leave.

The following chart is used by the TRS for both public education employees and state employees to convert accumulated sick leave days to months of service credit upon service retirement.

| Accumulated Sick Leave Days | Months of Service |
|-----------------------------|-------------------|
| 0-7 | 0 |
| 8-22 | 1 |
| 23-37 | 2 |
| 38-52 | 3 |
| 53-67 | 4 |
| 68-82 | 5 |
| 83-97 | 6 |
| 98-112 | 7 |
| 113-127 | 8 |
| 128-142 | 9 |
| 143-157 | 10 |
| 158-172 | 11 |
| 173-187 | 12 |
| 188-202 | 13 |
| 203-217 | 14 |
| 218-232 | 15 |
| 233-247 | 16 |
| 248-262 | 17 |
| 263-277 | 18 |
| 278-292 | 19 |
| 293-307 | 20 |
| 308-322 | 21 |
| 323-337 | 22 |
| 338-352 | 23 |
| 353-367 | 24 |
| 368-382 | 25 |
| 383-397 | 26 |
| 398-412 | 27 |
| 413-427 | 28 |
| 428-442 | 29 |

Computing Your Retirement Benefit

A member's retirement benefit is calculated based on a retirement formula. The factors used in calculating this benefit include:

1. **Average Final Salary (Compensation):** The average of the highest three years (July - June) out of the last 10 years the member made contributions. Partial years are included when calculating the average final salary if they benefit the member.
2. **Years and Months of Creditable Service:** The total amount of creditable service to include membership service, prior service, purchased service and transfer service.
3. **Retirement Benefit Factor:** The current benefit factor, as established by the State Legislature, is 2.0125%.

Retirement Formula for Maximum Monthly Benefit

$$\text{Average Final Salary} \times \text{Years and Months of Service} \times \text{Benefit Factor} \div 12 = \text{Maximum Monthly Benefit}$$

Example: Average Final Salary: \$35,000
Service Credit: 27 years and 6 months

$$\$35,000 \times 27.5 \times .020125 \div 12 = \$1,614.19 \text{ per month}$$

The member also has four options to choose from that are a reduction from the Maximum Monthly Benefit.

Important: When a member submits a retirement application, the staff calculates the monthly benefit under the Maximum Monthly Benefit and the Optional Monthly Benefits. The TRS mails this information to the retiring member, along with a form (RETIREMENT BENEFIT OPTION SELECTION) to elect the benefit the member wishes to receive. **If no election of an option is made prior to the effective date of retirement, the law specifies that the member will receive the Maximum Monthly Benefit retirement allowance.**

Maximum or Optional Monthly Benefit

The member must select either the Maximum Monthly Benefit or one of the Optional Monthly Benefits on the RETIREMENT BENEFIT OPTION SELECTION form. Failure to select either the Maximum Monthly Benefit or one of the Optional Monthly Benefits will, by law, result in the Maximum Monthly Benefit as the member's retirement benefit selection.

Maximum Monthly Benefit

The Maximum Monthly Benefit is the largest monthly benefit available to a retiring member of the TRS. This benefit is a lifetime benefit paid to the retiree on a monthly basis. At the death of the retiree, all monthly benefits cease. The designated beneficiary(s) will only receive a one-time prorated monthly benefit covering the days of the month that the retiree was still living.

Optional Monthly Benefit

A member may provide a benefit for a beneficiary by selecting one of the following options.

Option 1

The monthly benefit under Option 1 is slightly less than the maximum. This benefit is a lifetime benefit paid to the retiree on a monthly basis; however, if the retiree dies prior to receiving payments exceeding his or her account balance, the remaining balance will be paid to the designated beneficiary(s).

Option 2 (100% Survivor Benefit)

Option 2 allows the retiree to receive a reduced benefit over the life of the retiree in return for allowing the designated beneficiary (only one beneficiary may be designated) to receive the same lifetime benefit after the retiree's death. The benefits are based on the ages of the retiree and the beneficiary. Therefore, once the member retires, he or she cannot change their beneficiary unless the beneficiary predeceases the retiree or if the retiree and the beneficiary become divorced. See **Replacement Beneficiary**.

Option 3 (50% Survivor Benefit)

Option 3 allows the retiree to receive a reduced benefit over the life of the retiree in return for allowing the designated beneficiary (only one beneficiary may be designated) to receive one-half the retiree benefit over the beneficiary's lifetime after the retiree's death. The benefits are based on the ages of the retiree and the beneficiary. Therefore, once the member retires, he or she cannot change their beneficiary unless the beneficiary predeceases the retiree or if the retiree and the beneficiary become divorced. See **Replacement Beneficiary**.

Option 4

Members may elect to receive a monthly benefit actuarially equivalent to the regular retirement benefit. The TRS Board of Control must approve this option. The monthly benefit paid to the beneficiary cannot exceed the limits determined by federal tax laws.

Replacement Beneficiary

Retirees who elected joint survivor options (Option 2, 3 or 4) at the time of retirement may name a new beneficiary under either of the two following conditions:

1. If the named beneficiary dies before the retired member

Or

2. There is a divorce between the retired member and the beneficiary

The retired member should contact the TRS for information and forms. Generally, there will be a recalculation of the benefit amount for the retired member and beneficiary. The replacement beneficiary must be in place for at least two years to become effective. However, if the retired member dies within this two year period, no monthly survivor benefit is payable.

Table of Maximum Monthly Retirement Benefit

| Average Final Salary | Years of Creditable Service | | | | | | | |
|----------------------|-----------------------------|------|------|------|------|------|------|------|
| | 10 | 12 | 14 | 16 | 18 | 20 | 22 | 24 |
| \$10,000 | 168 | 201 | 235 | 268 | 302 | 335 | 369 | 402 |
| 12,000 | 201 | 242 | 282 | 322 | 362 | 403 | 443 | 483 |
| 15,000 | 252 | 302 | 352 | 403 | 453 | 503 | 553 | 604 |
| 17,000 | 285 | 342 | 399 | 456 | 513 | 570 | 627 | 684 |
| 20,000 | 335 | 402 | 469 | 536 | 604 | 671 | 743 | 805 |
| 22,500 | 377 | 453 | 528 | 604 | 679 | 755 | 830 | 906 |
| 25,000 | 419 | 503 | 586 | 670 | 755 | 839 | 922 | 1006 |
| 27,500 | 461 | 553 | 646 | 738 | 830 | 922 | 1015 | 1107 |
| 30,000 | 503 | 603 | 704 | 806 | 906 | 1006 | 1106 | 1208 |
| 32,500 | 545 | 654 | 763 | 872 | 981 | 1090 | 1199 | 1308 |
| 35,000 | 587 | 704 | 822 | 939 | 1057 | 1174 | 1291 | 1409 |
| 37,500 | 629 | 755 | 880 | 1006 | 1132 | 1258 | 1384 | 1509 |
| 40,000 | 671 | 805 | 939 | 1073 | 1208 | 1342 | 1476 | 1610 |
| 45,000 | 755 | 906 | 1057 | 1208 | 1358 | 1509 | 1660 | 1811 |
| 50,000 | 839 | 1006 | 1174 | 1342 | 1509 | 1677 | 1845 | 2013 |
| 55,000 | 922 | 1107 | 1291 | 1476 | 1660 | 1845 | 2029 | 2214 |
| 60,000 | 1006 | 1208 | 1409 | 1610 | 1811 | 2013 | 2214 | 2415 |
| 65,000 | 1090 | 1308 | 1526 | 1744 | 1962 | 2180 | 2398 | 2616 |
| 70,000 | 1174 | 1409 | 1644 | 1878 | 2113 | 2348 | 2583 | 2818 |
| 75,000 | 1258 | 1509 | 1761 | 2012 | 2264 | 2516 | 2767 | 3019 |
| 80,000 | 1342 | 1610 | 1878 | 2147 | 2415 | 2683 | 2952 | 3220 |
| 85,000 | 1426 | 1711 | 1996 | 2281 | 2566 | 2851 | 3136 | 3421 |
| 90,000 | 1509 | 1811 | 2113 | 2415 | 2717 | 3019 | 3321 | 3623 |

Note: Average Final Salary is the average of the highest three years (July - June) out of the last 10 years the member made contributions. Partial years are included when calculating the average final salary if they benefit the member.

To compute the maximum monthly retiree benefit, the following formula is used:

$$\text{Average Final Salary} \times \text{Years and Months of Service} \times \text{Benefit Factor (.020125)} \div 12$$

Table of Maximum Monthly Retirement Benefit

| Average Final Salary | Years of Creditable Service | | | | | | | |
|----------------------|-----------------------------|------|------|------|------|------|------|------|
| | 25 | 26 | 28 | 30 | 32 | 34 | 36 | 38 |
| \$10,000 | 419 | 436 | 470 | 503 | 537 | 570 | 604 | 637 |
| 12,000 | 503 | 523 | 564 | 604 | 644 | 684 | 725 | 765 |
| 15,000 | 629 | 654 | 704 | 755 | 805 | 855 | 906 | 956 |
| 17,000 | 713 | 741 | 798 | 855 | 912 | 969 | 1026 | 1083 |
| 20,000 | 839 | 872 | 939 | 1006 | 1073 | 1140 | 1208 | 1275 |
| 22,500 | 943 | 981 | 1057 | 1132 | 1208 | 1283 | 1358 | 1434 |
| 25,000 | 1048 | 1090 | 1174 | 1258 | 1342 | 1426 | 1509 | 1593 |
| 27,500 | 1153 | 1199 | 1291 | 1384 | 1476 | 1568 | 1660 | 1753 |
| 30,000 | 1258 | 1308 | 1408 | 1510 | 1610 | 1710 | 1812 | 1912 |
| 32,500 | 1365 | 1420 | 1529 | 1638 | 1748 | 1857 | 1966 | 2075 |
| 35,000 | 1467 | 1526 | 1644 | 1761 | 1878 | 1996 | 2113 | 2231 |
| 37,500 | 1572 | 1635 | 1761 | 1887 | 2012 | 2138 | 2264 | 2390 |
| 40,000 | 1677 | 1744 | 1878 | 2013 | 2147 | 2281 | 2415 | 2549 |
| 45,000 | 1887 | 1962 | 2113 | 2264 | 2415 | 2566 | 2717 | 2868 |
| 50,000 | 2096 | 2180 | 2348 | 2516 | 2683 | 2851 | 3019 | 3186 |
| 55,000 | 2306 | 2398 | 2583 | 2767 | 2952 | 3136 | 3321 | 3505 |
| 60,000 | 2516 | 2616 | 2817 | 3019 | 3220 | 3421 | 3623 | 3824 |
| 65,000 | 2725 | 2834 | 3052 | 3270 | 3488 | 3706 | 3924 | 4142 |
| 70,000 | 2935 | 3052 | 3287 | 3522 | 3757 | 3991 | 4226 | 4461 |
| 75,000 | 3145 | 3270 | 3522 | 3773 | 4025 | 4277 | 4528 | 4780 |
| 80,000 | 3354 | 3488 | 3757 | 4025 | 4293 | 4562 | 4830 | 5098 |
| 85,000 | 3564 | 3706 | 3991 | 4277 | 4562 | 4847 | 5132 | 5417 |
| 90,000 | 3774 | 3924 | 4226 | 4528 | 4830 | 5132 | 5434 | 5736 |

Note: Average Final Salary is the average of the highest three years (July - June) out of the last 10 years the member made contributions. Partial years are included when calculating the average final salary if they benefit the member.

To compute the maximum monthly retiree benefit, the following formula is used:

$$\text{Average Final Salary} \times \text{Years and Months of Service} \times \text{Benefit Factor (.020125)} \div 12$$

Tax Information

Retirement benefits from the TRS are subject to federal income tax. Previously taxed contributions, including payments made to purchase additional service credit using pre-taxed monies, are exempt from federal taxation over the life of the retiree. Federal income tax may be withheld from the monthly benefit payment. All retirees will receive a Form 1099-R Income Statement every January for use in filing a federal income tax return. The 1099-R will report the retirement benefits subject to federal income tax.

If you reside in Alabama, RSA retirement benefits are not subject to state of Alabama income tax. However, if you reside in another state, check with that state's revenue department to determine your tax status.

Deferred Retirement Option Plan (DROP)

DROP is an optional program which offers qualified active members a way to continue to work while accumulating funds in a DROP account to be distributed at retirement.

Requirements for DROP Participation

To be eligible to participate in DROP, the member must meet **all** of the following requirements:

1. Have at least **25** years of creditable service exclusive of sick leave (members cannot convert sick leave into creditable service to become DROP eligible)
2. Be at least **55** years of age
3. Be an active contributing member

A member may participate in DROP only **one** time.

Election to Participate in DROP

The participation period for DROP is for a minimum of three years, but not more than five years. Once the member has completed the three-year minimum requirement, he or she is eligible to receive either a lump-sum payment or make a direct rollover of the entire account to a qualified plan. A DROP participant may terminate DROP anytime between three years and five years (for example, three years and eight months or four years and three months). The termination date must be the last day of a month.

A penalty will result for members who **voluntarily** terminate employment or withdraw from DROP in the first three years of DROP participation. There is no penalty for **involuntary termination, disability, involuntary transfer of his or her spouse, or death of the participant** in the first three years.

Applying for Participation in DROP

A member is eligible to apply to enter DROP whenever he or she meets the requirements for participation. However, the member must have the DROP CONTRACT AND APPLICATION to the TRS at least 30 days, but not more than 90 days, before the effective date of participation in DROP. The effective date of participation must be the first day of a month. Contact the TRS to request the DROP CONTRACT AND APPLICATION or download the form from our Web site.

Entering DROP

Maximum or Optional Retirement Allowance

At the beginning of the participation period, the member must select between the Maximum Monthly Benefit or one of the Options the same as if he or she were retiring. **This option selection is an irrevocable, one-time election.** If the member does not make this selection, by law he or she will automatically receive the Maximum. This monthly retirement allowance will be paid into the member's DROP account.

Converting Accrued Sick Leave

Accrued sick leave may **not** be converted to service credit for the purpose of establishing DROP eligibility, nor used in calculating the monthly retirement allowance upon entering DROP. At the time the member leaves service, the monthly retirement allowance will be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP.

Example:

If a member had 100 days of sick leave upon entering DROP and accrued 20 more sick leave days during DROP, he or she may only convert 100 sick leave days to service credit. If a DROP participant has 100 sick leave days upon entering DROP and used all of his or her sick leave accrued during DROP plus another 20 days of sick leave, the DROP participant may only convert the remaining 80 days of sick leave to service credit.

Service Credit

The member's service credit will remain the same during DROP participation as when he or she entered DROP. No time spent participating in DROP will be counted as creditable service.

Purchasing Service Credit

Once a member enters DROP, service credit purchases are **prohibited**.

Contributions

Both the employer and the member will continue making contributions as required by law to the TRS during the DROP participation period.

Prevention of Extraordinary Benefits or Incentives

No employer whose employees are covered under the TRS can offer any incentives such as monetary payments, prepayment of health insurance, or extraordinary payments for accrued leave, solely for the purpose of enticing employees to elect to participate in DROP. This does not apply to regular payments for leave or contributions toward health insurance.

The DROP Account

The DROP account funds are generated from three sources:

- 1. Monthly Retirement Allowance**

The monthly retirement allowance that normally would have been paid to the member if he or she had retired will be placed in the member's DROP account. There will be no deductions for taxes, health insurance, or Social Security.

- 2. Member Contributions**

The five percent member contributions will be placed in the member's DROP account. Full-time, certified fire fighters, correctional officers, and law enforcement officers must contribute six percent.

- 3. Interest**

The DROP account will earn interest at the same rate as active member accounts (currently four percent).

Retiree Cost-of-Living Adjustments (COLAs)

A member participating in DROP is **not** eligible to receive retiree COLAs. A member is not eligible to receive a retiree COLA until he or she has withdrawn from service and has been receiving a monthly retirement allowance for one year.

Active COLAs and Salary Increases

Participants in DROP may receive active COLAs and salary increases.

Health Insurance

A member's health insurance benefits (PEEHIP or SEIB) will continue to be provided through the member's employing agency or school system.

Annual and Sick Leave

Participants in DROP will continue to accrue sick and annual leave. See **Converting Accrued Sick Leave** on page 23 for more information.

No Fees

DROP is not subject to fees, charges or other similar expenses of any kind.

Employee Rights

Participation in DROP does not affect the rights of education employees under the Fair Dismissal Act, tenure law, or any other fringe benefit. The election to enter DROP is between the TRS and the member. In no way should it be construed as a guarantee of continued employment for the DROP participation period, nor as a requirement that a participant terminate employment at the end of the DROP participation period. Continued employment and termination of employment are matters between the employer and employee.

Military Leave While Participating in DROP

A DROP participant may go on military leave without penalty provided he or she does not terminate employment. The period of military leave is included in the DROP participation period.

Withdrawal from DROP

Completion of Contractual Obligation

A member who completes his or her contractual obligation in DROP, i.e., participates in DROP between three to five years, may elect to receive the following contributions in either a lump-sum payment or make a direct rollover to an eligible plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the TRS during the DROP participation period plus applicable interest.

The monthly retirement allowance the retiree will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until the member withdraws from service. If the member continues employment with an agency participating in the RSA, he or she will not be able to receive distribution until he or she terminates employment.

Involuntary Termination, Disability, or Involuntary Transfer of Spouse in First Three Years of DROP Participation

A member who did not fulfill his or her contractual obligation due to involuntary termination, disability, or involuntary transfer of spouse in the first three years of the DROP participation period may elect to receive the following contributions in either a lump-sum payment or make a direct rollover to an eligible plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.

2. Member contributions made to the TRS during the DROP participation period plus applicable interest.

The monthly retirement allowance the retiree will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until the member withdraws from service.

Voluntary Termination within the First Three Years of DROP Participation

A member who withdraws from service voluntarily within the first three years of DROP will **forfeit** the DROP contributions based on the monthly retirement allowance paid into his or her account. He or she may elect to receive the following in either a lump-sum payment or make a direct rollover to an eligible plan:

1. Member contributions made to the TRS during the DROP participation period plus applicable interest.
2. Interest attributable to the monthly retirement allowance contributions made to the DROP account during the DROP participation period.

The monthly retirement allowance the retiree will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until the member withdraws from service.

Death During DROP Participation

If the member dies anytime during the DROP participation period and the beneficiary is the spouse, the **spouse** may elect to receive the following contributions in either a lump-sum payment or make a direct rollover to a qualified plan. **Non-spouse** beneficiary(s) may receive the following contributions in a lump-sum payment or make a direct rollover to an IRA created for that purpose:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the TRS during the DROP participation period plus applicable interest.

Any retirement benefit based on the retirement option selected by the member at the beginning of the DROP participation period will be paid to the beneficiary(s). The monthly retirement allowance may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The beneficiary is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

A \$15,000 term life insurance benefit will be paid to the beneficiary(s) if the member was employed full-time. This benefit will be prorated if employment was not full-time.

No death before retirement benefit will be paid to the estate or beneficiary.

Continued Service after the DROP Participation Period

If the member does not withdraw from service after completing his or her DROP participation, the member will resume active contributing membership in the TRS for the purpose of earning creditable service. No time spent participating in DROP will be counted as creditable service.

Example:

If a member had 26 years of creditable service upon entering DROP and participated in DROP for five years; then worked two more years after completing his or her contractual obligation in DROP, the member would only have 28 years of total creditable service. There would be two separate retirement allowance calculations; one based on 26 years and the other based on two years of service.

Upon withdrawal from service, the member may elect to receive the following contributions in either a lump-sum distribution or make a direct rollover to an eligible plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the TRS during the DROP participation period plus applicable interest.

The monthly retirement allowance may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP. The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

An additional monthly retirement allowance based on his or her additional service since the end of the DROP participation period will be calculated using the retirement formula (Average Final Salary x Additional Years and Months of Service x 2.0125%). The Average Final Salary will be calculated only on the additional service since the end of DROP participation. **This additional service can in no way be combined with service prior to participation in DROP.** The retirement option will be the same option used in the original retirement allowance.

If the member dies or becomes disabled during the period of additional service, he or she will be considered as having retired on the date of death or commencement of disability. No death before retirement benefits will be made. However, the

\$15,000 Group Term Life Insurance benefit would be payable to beneficiaries of full-time employees.

Distribution of DROP Account

No distributions from a member's DROP account will be made until the member terminates employment with any RSA participating agency.

DROP participants have one of two ways to distribute the funds in their DROP account:

1. Receive a lump-sum payment of the total DROP account balance less the required **20%** federal income tax withholding. No portion of the distribution is subject to state of Alabama income tax.
2. Rollover all or a portion of the account balance to a traditional IRA, another eligible employer retirement plan, a 403(b) Tax Sheltered Annuity, or a governmental 457(b) plan that accepts rollovers. **The RSA-1 Deferred Compensation Plan accepts rollovers from your RSA DROP account.**

Read the **Special Tax Notice Regarding Plan Payments** prior to making your selection. Request a DROP distribution brochure from the TRS or download it from our Web site.

To either receive a lump-sum payment or make a direct rollover of the DROP account, complete the REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION (RSA 10 D-D) form and the REQUEST FOR DROP TERMINATION (TRS 10 D-C) form and return both to the TRS.

Reemployment with the RSA after Withdrawal from Service

Any member who participated in DROP and withdrew from service may become reemployed with either the TRS or ERS. This additional service will be calculated based on information in **Continued Service after the DROP Participation Period** on page 26.

Calculating Your DROP Benefit

The following is a step-by-step method of calculating your DROP benefit. This is only an estimate. When you are ready to make a decision about entering DROP, contact the TRS for an official estimate. The retirement benefit calculator on our Web site will also calculate the DROP benefit for eligible members.

1. Determine your monthly retirement benefit at the DROP participation date.

Average Final Salary x Years and Months of Service x .020125 ÷ 12 = Monthly Retirement Benefit

The Average Final Salary is the average of the highest three annual salaries in the member's last 10 years of creditable service for which the member made contributions.

This formula will only compute the Maximum Monthly Retirement Benefit. For Options 1, 2, or 3, use the benefit calculator on our Web site to determine the monthly retirement benefit.

2. Multiply the monthly retirement benefit times the factor associated with the number of years you elect to participate in DROP to give you the DROP contributions value including interest.

1 year - 12.24
2 years - 24.97
3 years - 38.21
4 years - 51.98
5 years - 66.30

3. Determine the value of your contributions, plus interest, made during the DROP participation period.

Multiply the average salary (estimated) during the DROP participation period times the factor for the number of years you elect to participate in DROP.

1 year - .0510
2 years - .1040
3 years - .1592

4 years - .2166
 5 years - .2762

4. Add the two amounts together to give you an estimated value of your DROP benefit at the end of the DROP participation period.

Example:

At the DROP participation date the member had an average final salary of \$41,000; 31 years of service; and selects the Maximum Retirement Benefit. The member elects a four-year DROP participation period and estimates that the salary for the next four years will average \$43,500.

1. Monthly retirement benefit:
 $\$41,000 \times 31 \times .020125 \div 12 =$
 $\$2,131.57$
2. DROP contribution value including interest:
 $\$2,131.57 \times 51.98 = \$110,799.00$
3. Member contributions including interest:
 $\$43,500 \times .2166 = \$9,422.10$
4. Total DROP benefit:
 $\$110,799.00 + \$9,422.10 = \$120,221.10$

Postretirement Employment

Limitation on Earnings

A TRS retiree employed with a TRS or ERS member agency may continue to receive full retirement benefits provided the retired member meets **both** of the following conditions:

1. The retiree must not be employed or under contract for permanent, full-time employment.
2. The retiree's salary cannot exceed the limitation on earnings. The limits are subject to change each year based upon the Consumer Price Index (CPI). The limit for the 2008 calendar year is \$21,000.

If a retiree's earnings or remunerations exceed the annual limitation on earnings, the retirement benefit will be suspended for the remainder of the calendar year or for the remainder of the month if the retiree is subject to a monthly earnings limitation.

- ◆ Retirees who return to work with a TRS or ERS member agency in the same calendar year as their retirement are subject to a monthly earnings limitation. The monthly limitation is 1/12 of the yearly limitation, which for 2008 is \$1,750.
- ◆ Retirees who return to work with a TRS or ERS member agency in a subsequent year from their retirement are subject to a yearly earnings limitation.
- ◆ If a TRS or ERS retiree exceeds the annual or monthly limitation on earnings, the employing agency must notify the RSA immediately. Any questions concerning postretirement law should be directed to the TRS.

Employment with the ERS

A TRS retiree who is employed with an ERS member agency in a position eligible for retirement coverage must begin participation in the ERS. The member's TRS retirement account will be terminated and remaining funds and creditable service will be transferred and credited to the new ERS account.

Disability Retiree

A disability retiree employed with a TRS or ERS participating agency is subject to the following limitation: the lesser of the same limitations as a non-disabled retiree or the difference between the average final salary and the annual retirement benefit.

If the retiree is employed with a non-participating agency, earnings cannot exceed the difference between the average final salary and the annual retirement benefit. The earnings restriction is waived upon attaining age 60.

Contract Employment

Retirees providing services to TRS or ERS agencies on a contractual basis may be subject to the limitations on earnings and remunerations. If a TRS or ERS agency has entered into a contract with a TRS or ERS retiree, please provide a copy of the contract to the TRS to confirm whether or not this contract would violate the postretirement employment law.

Private Employment

There are no limitations on earnings for a **service** retiree employed in private industry, private education, or for any other organization which does not participate in either the TRS or ERS.

Full-Time Employment with the TRS

A TRS retiree who is employed full-time with a TRS member agency must have his or her retirement benefit suspended until he or she withdraws from service again. If the retiree is employed for a period of two years, he or she may petition the TRS Board of Control to permit the resumption of participation in the TRS. Upon approval, the member will pay the contributions over the non-contributing period plus interest and begin contributing on future compensation.

Upon termination of service, the member's retirement benefit would be recalculated to include service accrued since reemployment. The member will also be allowed to reselect a retirement option and beneficiary.

Public Education Employees' Health Insurance Plan (PEEHIP)

PEEHIP was established in 1983 under the provisions of Act 83-455 of the Alabama Legislature to provide health insurance benefits for active and retired employees of Alabama's public educational institutions, which provide instruction at any combination of grades K-14, exclusively under the auspices of the State Board of Education.

PEEHIP is a self-funded plan with the benefits and rates being determined by a 14-member Board. The PEEHIP Board and staff strive to offer members a comprehensive benefit plan at an affordable price and to research and implement cost-saving medical management programs.

The Board also employs a third party administrator to properly pay claims within the scope of benefits determined by the Board. The third party administrator has no financial risk for the plan, but simply pays claims with PEEHIP funds. Blue Cross Blue Shield of Alabama has been the claims administrator for the Hospital/Medical plan since October 1, 1992. Beginning October 1, 2004, Express Scripts, Inc., began administering the prescription drug benefit for PEEHIP. Southland National Corporation has been the third party claims administrator for the supplemental plans since the inception of PEEHIP in 1983.

PEEHIP Information

To receive more information about your PEEHIP benefits, contact PEEHIP at 877-517-0020. Our Web site contains valuable information such as the PEEHIP Member Handbook, Premium Rates and Copays, Annual PEEHIP Changes, PEEHIP Financial Statements, Retired Member Information, and HIPAA Information.

RSA-1 Deferred Compensation Plan

The RSA-1 Deferred Compensation Plan was established to allow public employees to defer receipt of a portion of their salary until a later determined date, usually at retirement or termination of service. Because receipt of the income is deferred, the deferred income is not included in the employee's federal or state of Alabama gross taxable income.

The majority of people working today expect their retirement income to come from three sources: their pension plan, Social Security, and personal savings. With experts estimating that a person will require between 70 and 80 percent of his or her preretirement income, increasing your personal savings is a good retirement strategy to help supplement your retirement income.

One way for public employees in Alabama to increase their personal savings and add to their financial security is by investing in an Internal Revenue Code Section 457 Deferred Compensation Plan like RSA-1. RSA-1 offers an easy and flexible way to save for retirement through payroll deduction while providing tax relief today.

Employee Eligibility

Any public official or employee of the state of Alabama or any political subdivision thereof is eligible to participate in the RSA-1 Deferred Compensation Plan, regardless of age or participation in the RSA. Participation in RSA-1 is strictly voluntary.

Employee Enrollment

You can enroll in RSA-1 at any time. There are no administrative, membership, investment transaction, sales or commission fees for participating in RSA-1. All the money you defer and all investment earnings are placed into your account.

To participate in RSA-1:

1. An employee must complete the MEMBER RECORD form and the INVESTMENT OPTION ELECTION form and submit the completed forms to the RSA-1 Deferred Compensation Plan

office at the RSA to establish an account.

2. If you wish to have more than one primary or contingent beneficiary, complete the MULTIPLE BENEFICIARY DESIGNATION form and submit along with the MEMBER RECORD and INVESTMENT OPTION ELECTION forms to RSA-1.
3. Initiate salary deferrals by filing an AUTHORIZATION TO DEFER COMPENSATION form **with your payroll officer**. Do not send the AUTHORIZATION TO DEFER COMPENSATION form to RSA-1 or the RSA. This form simply authorizes your payroll officer to defer money from your salary.

Easy to Make Deferrals

1. Deferrals may be in any amount desired by the participant as long as the participant does not exceed the maximum deferral allowable.
2. The amount of the participant's deferral may be increased, decreased or suspended as often as the participant wishes, subject only to employer payroll requirements.
3. You can only defer contributions to RSA-1 through payroll deductions.

Rollovers

Members may defer taxes on their sick and annual leave pay by rolling over these payments to RSA-1 at termination of employment. **RSA members may also rollover their RSA DROP account funds to RSA-1 at termination of employment.** Rollover of RSA DROP account funds and sick and/or annual leave results in a direct tax savings to you. Likewise, RSA-1 funds may be rolled over to purchase permissible service credit under TRS (see page 10).

RSA-1 accepts trustee-to-trustee transfers from other Section 457 plans. RSA members must establish an RSA-1 account prior to the transfer. Funds transferred from other Section 457 accounts must never have been from any source other than 457(b).

Tax Savings

The following is an example of how participation in RSA-1 can help you reduce current taxes:

Assume:

- ♦ An employee earning \$1,000 bi-weekly
- ♦ Deferring \$100 into RSA-1 bi-weekly
- ♦ Filing as single with one withholding allowance

| Contributing to RSA-1 | | Not Contributing to RSA-1 | |
|----------------------------|-----------------|----------------------------|-----------------|
| Bi-weekly pay | \$1,000.00 | Bi-weekly pay | \$1,000.00 |
| RSA-1 Deferral | \$100.00 | RSA-1 Deferral | \$0.00 |
| 5% Retirement Contribution | \$50.00 | 5% Retirement Contribution | \$50.00 |
| Federal Tax | \$77.31 | Federal Tax | \$92.31 |
| State Tax | \$32.00 | State Tax | \$36.00 |
| FICA | <u>\$76.50</u> | FICA | <u>\$76.50</u> |
| <u>Take-Home Pay</u> | <u>\$664.19</u> | <u>Take-Home Pay</u> | <u>\$745.19</u> |

In this example, deferring \$100 only decreases your take-home pay by \$81 while saving \$19 on taxes. (Based on 2008 tax tables.)

Retirement Savings

| Effect of Saving Over a 25 Year Period* | | | | Effect of Saving Over a 30 Year Period* | | | |
|-----------------------------------------|-----------------------|------------|------------|-----------------------------------------|-----------------------|------------|------------|
| Monthly Deferral Amount | Assumed Earnings Rate | | | Monthly Deferral Amount | Assumed Earnings Rate | | |
| | 6% | 7% | 8% | | 6% | 7% | 8% |
| \$25 | 17,324.85 | 20,251.79 | 23,775.66 | \$25 | 25,112.88 | 30,499.27 | 37,258.99 |
| \$50 | 34,649.70 | 40,503.58 | 47,551.32 | \$50 | 50,225.75 | 60,998.55 | 74,517.97 |
| \$100 | 69,299.40 | 81,007.17 | 95,102.64 | \$100 | 100,451.50 | 121,997.10 | 149,035.94 |
| \$200 | 138,598.79 | 162,014.34 | 190,205.28 | \$200 | 200,903.01 | 243,994.20 | 298,071.89 |
| \$400 | 277,197.58 | 324,028.68 | 380,410.56 | \$400 | 401,806.02 | 487,988.40 | 596,143.78 |

*These examples are provided for illustration purposes only and do not guarantee that the fund will perform at this level in the future.

Contact RSA-1

For more information about RSA-1 and the forms necessary to enroll, contact RSA-1 at 877-517-0020; email RSA-1 at rsalinfo@rsa-al.gov; or download the information from our Web site.

Retiree Information

Cost-of-Living Adjustments (COLAs)

Cost-of-Living Adjustments for retirees are made on an ad hoc basis by the State Legislature. The amount of the increase is based upon the provisions of the legislation.

When Checks Are Mailed

Retirement benefit checks are mailed on the last working day of the month. If you have direct deposit, your retirement benefit will be electronically transferred to your account on the last working day of the month.

Direct Deposit

The TRS strongly encourages retirees to elect to have their retirement benefit checks sent directly to their bank by electronic funds transfer (EFT), also known as direct deposit. Members using direct deposit do not have to worry about lost, stolen, or damaged checks, nor arrange for someone to deposit their checks when they are out of town or unable to go to the bank. This service is free, secure, reliable, and convenient.

To obtain a DIRECT DEPOSIT AUTHORIZATION form, contact the TRS or download the form from our Web site.

Deductions from Your Retirement Benefit Check

The following amounts may be deducted from your retirement benefit check:

- ◆ Federal income taxes
- ◆ If you move to another state, your benefit will be subject to that state's tax laws. You can find information about other states' tax laws at www.1040.com.
- ◆ PEEHIP premiums if applicable
- ◆ AEA dues if applicable and authorized by the member

Your benefit is **not** subject to Alabama income tax.

RSA Publications and Notifications

Member Handbooks

(TRS, ERS, State Police, and JRF)

Each Member Handbook presents an overview of mandatory participation, creditable service, vesting, disability and service retirement, preretirement death benefits and postretirement employment. Each agency is sent a supply of the handbooks. Each new member is mailed a handbook upon receipt of an enrollment form from the employing agency. A handbook may be requested at any time.

RSA-1 Deferred Compensation Plan Member Handbook

RSA-1 is a voluntary deferred compensation plan governed by Section 457 of the Internal Revenue Service Code. RSA-1 will provide information at the request of the member or the agency.

Educational Opportunities

The RSA offers its members several opportunities for retirement education. Retirement Preparation Seminars are offered at various sites throughout Alabama. This program helps members to begin or continue their planning and preparation for retirement. The Ret Prep Seminars are full-day programs. Schedules for these seminars are released once a year. The registration packets including the schedule are mailed to Human Resource Offices and Payroll Offices. All schedules and forms are placed on the RSA Web site for our members' convenience.

Individual counseling appointments are offered across the state as well. These are twenty-minute appointments with a TRS counselor. The counselor will answer your questions and review your estimate of benefits. Schedules are released once a year and are placed on the RSA Web site.

TRS members are always welcome to come to the RSA Executive Building on the corner of Union and Adams in Montgomery. Appointments are nice but not necessary. All walk-ins are welcome.

RSA Annual Report

In February of each year, the RSA publishes the Annual Report. The report provides information about assets, investments, membership, the RSA Boards of Control, RSA departments, and financial statements.

Comprehensive Annual Financial Report (CAFR)

The CAFR, published annually, provides more detailed financial and actuarial information about the RSA.

RSA Newsletter

The monthly *Advisor* is mailed to each RSA active member, RSA retired member, and any other persons or organizations interested in the RSA. The *Advisor* informs recipients of important topics regarding the TRS, ERS, RSA-1, PEIRAF, PEEHIP, legislation, investments, and counseling schedules. Comparisons of insurance and retirement benefits provided by other states and current information regarding Social Security, taxes, and Alabama's economic and political climate are also featured.

RSA Web Site (www.rsa-al.gov)

The RSA Web site publishes RSA's member handbooks, the *Advisor*, Annual Reports and information about the TRS, ERS, PEIRAF, RSA-1 and PEEHIP benefits. News from RSA features updates on policies, procedures, new legislation, federal laws, and other late-breaking events. The Web site also offers links to other state and federal agencies, as well as RSA's investments, such as the Robert Trent Jones Golf Trail and the Grand Hotel.

Legislative Updates keep members informed about legislative news, current legislation and archive legislation. The Retirement Benefits Estimate Calculator and DROP Calculator allow members to estimate retirement benefits under the Maximum allowance and Options 1, 2, and 3, and if eligible

DROP benefits. Information about Retirement Preparation Seminars, Agency Seminars and Individual Counseling Sessions is listed under Retirement Planning.

Annual Statement of Account

The TRS provides each member a Statement of Account for the year ending June 30. The statements are sent to the last employer for which contributions were posted for June for distribution to TRS members.

The Statement of Account verifies current year contributions and accumulated interest. The total service credit, interest, service purchases, previously taxed contributions, non-taxed contributions, and balance are also provided. The member's designated beneficiary, mailing address, and change of address as of June 30 are listed.

RSA-1 Statement

For those electing to participate in the RSA-1 Deferred Compensation Plan, a statement is sent to the member's mailing address semi-annually. The statement verifies the balance and earnings as of March 31 and September 30. The member's designated beneficiary is also listed.

DROP Account Statement

Each DROP participant receives a statement shortly after the close of each fiscal year (September 30) detailing the preceding year's transactions and giving a year-end account balance.

Postretirement Employment Notification

Each year, the TRS provides the participating agency information regarding postretirement earnings limitations and the requirement for certifying postretirement employment information.

The law mandates that the employer notify the TRS when a retired, RSA member is employed full-time. If the retired, RSA member is not employed full-time, the agency must notify the TRS when the retiree's earnings exceed the earnings limit.

Terminated Account Information Request

The TRS may request mailing address information from participating agencies about former employees whose retirement accounts have been terminated due to an absence of participation. The TRS reviews terminated accounts throughout the year and will try to locate former members to be able to return contributions. Vested accounts (with 10 years of service) will not be terminated.



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